A message from the Chairman

I am pleased to present our first Trustee newsletter for members of the Isle of Man Bank Pension Fund and Isle of Man Bank Widows’ & Orphans’ Fund (‘the Funds’) covering the year ended 31 December 2014.

The two Funds together provide pensions for former employees working for Isle of Man Bank Limited, and pensions and lump sums (in certain cases) on their deaths. The Trustees and the Bank both have responsibilities for making decisions in relation to the Funds. The Trustees are bound to act in accordance with the trust provisions governing the Funds together with applicable legislation. As Trustees, we are at all times conscious that our first duty must be to the beneficiaries of the Funds and that we must always act in their best interests. We seek to act fairly and impartially between individual beneficiaries too, weighing the interests of the particular individual against the need to protect the security of Fund beneficiaries as a whole. Acting impartially does not mean that each type of member needs to be treated in the same way. But it does mean that we will weigh the differing interests of different members against each other as the law requires and as permitted by the terms of the Funds. Some decisions are taken solely by the Trustees and some decisions are taken solely by the Bank. This newsletter has been produced by the Trustees to keep you abreast of changes in the Funds and to provide you with an update on their financial position.

The Trustees keep the financial health of the Funds under regular review. I am pleased to report that the value of the net assets of the Pension Fund and Widows’ & Orphans’ Fund increased during the year to £93.7m and £22.8m respectively at 31 December 2014.

Trustee meetings

The Trustees met four times during 2014. The Trustees discussed a proposal from the Bank to merge the Funds with the Isle of Man Plan of The Royal Bank of Scotland International Pension Trust. Matters have not progressed at this time. The Trustees will write to members if discussions progress to a stage where the Trustees are satisfied to put any proposal to members.

I would like to thank my fellow Trustees and our internal and external advisers for their commitment and support during the year.

Jim Noakes
Chairman of the Trustees of the Isle of Man Bank Pension Fund and Isle of Man Bank Widows’ & Orphans’ Fund
April 2015
Funding report

The Trustees’ focus is to manage the Funds in order to meet their long term liabilities. To do this the Trustees monitor the funding level of the Funds and the ability of the companies that sponsor the Funds to meet their commitments in respect of the Funds, namely The Royal Bank of Scotland International Limited and Isle of Man Bank Limited. As Trustees we are also responsible for the management of the Funds’ assets and new contributions received. You can find out more about how we do this in the investment report below.

How is financial security of the Isle of Man Bank Pension Fund and the Isle of Man Bank Widows’ & Orphans’ Fund measured?

The estimated cost of providing the benefits you and other members have earned to date is known as the value of a scheme’s ‘liabilities’. This includes the benefits of members who have left the Bank or retired.

We collect money (‘contributions’) from the Bank, and invest this to help provide your benefits. It is held in a communal fund, not in separate funds for each individual. The amount of money we have invested is known as a scheme’s ‘assets’.

To check a scheme’s financial security we look at its financial position and compare the value of its liabilities to that of its assets. If the scheme has fewer assets than liabilities, it is said to have a ‘shortfall’. If the assets are more than the liabilities there is said to be a ‘surplus’.

We carry out an in-depth look at the Funds’ finances at least every three years. This is called an actuarial valuation. We ask a qualified, independent professional, known as an Actuary, to do this. We also ask the Actuary to check the financial security of the Funds more regularly. When this is done we receive an actuarial report summarising the Actuary’s conclusions.

What is the financial position of the Funds?

The latest actuarial valuations of the Isle of Man Bank Pension Fund and the Isle of Man Bank Widows’ & Orphans’ Fund were carried out as at 31 December 2012 and showed the following results:

<table>
<thead>
<tr>
<th></th>
<th>Isle of Man Bank Pension Fund</th>
<th>Isle of Man Bank Widows’ &amp; Orphans’ Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>The value of the liabilities was</td>
<td>£98.0</td>
<td>£14.0</td>
</tr>
<tr>
<td>The Fund’s assets were valued at</td>
<td>£75.6</td>
<td>£19.2</td>
</tr>
<tr>
<td>This means that there was a (shortfall)/surplus of</td>
<td>(£22.4)</td>
<td>£5.2</td>
</tr>
</tbody>
</table>

The calculation of the value of the liabilities in the table makes some allowance for the potential cost of discretionary pension increases on pensions.

How has the financial position of both Funds changed since you last carried out an actuarial valuation?

Isle of Man Bank Pension Fund

When the previous actuarial valuation was carried out for the Isle of Man Bank Pension Fund, as at 31 December 2009, the shortfall was estimated to be £15m.

Since 31 December 2009 this Fund’s financial position has worsened and the shortfall was £22.4m at 31 December 2012 as described above. The worsening in the Fund’s financial position is due to the significant fall in UK Government bond yields which has been partially offset by a fall in the market’s expectation for future price inflation and the deficit contributions paid by the Bank.

Isle of Man Bank Widows’ & Orphans’ Fund

When the previous actuarial valuation was carried out for the Isle of Man Bank Widows’ & Orphans’ Fund, as at 31 December 2009, the surplus was estimated to be £3.2m.

Since 31 December 2009 this Fund’s financial position has improved and the surplus was £5.2m at 31 December 2012 as described above. The improvement in the Fund’s financial position is due to a fall in the market’s expectation for future price inflation and higher than assumed investment returns. This has been partially offset by a fall in government bond yields.

How has the funding position changed since 31 December 2012?

The current funding position of the Funds has not been assessed on a formal basis and the next full valuations of the Funds will be carried out as at 31 December 2015. However, markets have been very volatile since 31 December 2012 and approximate calculations undertaken would indicate that it is likely that the funding positions improved over 2013 and then deteriorated over 2014. The Trustees will provide an update once the results of the 2015 valuations are available.
Is the shortfall in the Isle of Man Bank Pension Fund going to be paid off and, if so, how will this be done?

The Bank has determined to make up the shortfall of £22.4m by paying £3.065m each year up to 31 December 2023 (with the exception of 2015 when no such contribution will be paid due to exceptional investment returns as detailed on page 5). Our aim is for the shortfall to be paid off by this date.

Although there was a shortfall at 31 December 2012, all members who have retired have still received the full amount of their pension.

How much money is paid into the Funds each year?

Isle of Man Bank Pension Fund

The Bank was paying contributions to the Fund of 21.0% of Pensionable Salaries. As a result of the 31 December 2012 actuarial valuation the Bank has increased its contributions to the Fund and now pays contributions at a rate of 33.9% of Pensionable Salaries. The £3.065m payable each year by the Bank to pay off the shortfall is in addition to these amounts.

Isle of Man Bank Widows’ & Orphans’ Fund

The Actuary estimates that, on the assumptions underlying the Fund’s funding target, the Fund would remain in surplus even if no contributions were paid to the Fund in the three years following the actuarial valuation date. Therefore, it has been agreed that no contribution will be paid by the Bank. This will be reviewed at the next formal valuation with an effective date no later than 31 December 2015.

Is there enough money in each Fund to provide my full benefits if the Funds were wound-up?

The actuarial valuation at 31 December 2012 showed that the Isle of Man Bank Pension Fund’s assets could not have paid for the full benefits of all Isle of Man Bank Pension Fund members to be provided by an insurance company if the Fund had wound-up at that date, and the employers were unable to pay the shortfall. (Any such shortfall would be a debt on the employers.)

For the Isle of Man Bank Widows’ & Orphans’ Fund, the actuarial valuation as at 31 December 2012 showed that the assets relating to this Fund could have paid for the full benefits of all Isle of Man Bank Widows’ & Orphans’ Fund members to be provided by an insurance company if the Fund had wound-up at that date.

Investment report

The report below sets out how the assets of the Funds are invested and how they performed during 2014.

Both growth and defensive assets delivered positive returns over the 12 month period to 31 December 2014, against the backdrop of solid economic growth and continued monetary easing by the world’s major central banks. In the first half of the year, global economic recovery began to broaden and the Eurozone emerged from recession. By the end of the second quarter of 2014, market volatility significantly fell to pre-2008 level and most developed markets experienced above-trend growth. In the second half of the year, global growth outside of the US and the UK slowed somewhat, which led to a pickup in market volatility, a sharp fall of commodity prices and an accelerating decline of long dated bond yields in most economies.

While performance was positive both for growth and defensive assets, bonds generally outperformed equities in 2014. In the UK, where economic growth remained strong throughout the year (2.6% year-over-year, as reported by the Office for National Statistics), the property market was the top performer.

Within the developed world, economic growth was strongest in the US, which led to a US dollar rally against Sterling and most other currencies. Sterling, however, continued to appreciate against the Euro and the Japanese Yen. Emerging market assets generally underperformed their developed counterparts in the environment of falling commodity prices, strong US dollar and somewhat weaker than expected global growth in the second half of the year.

The below value of liabilities does not include any allowance for the cost of discretionary increases.

<table>
<thead>
<tr>
<th>WIND-UP POSITION</th>
<th>Isle of Man Bank Pension Fund million</th>
<th>Isle of Man Bank Widows’ &amp; Orphans’ Fund million</th>
</tr>
</thead>
<tbody>
<tr>
<td>The liabilities if the Fund were to be wound-up were</td>
<td>£117.0</td>
<td>£13.6</td>
</tr>
<tr>
<td>The Fund’s assets were valued at</td>
<td>£75.6</td>
<td>£19.2</td>
</tr>
<tr>
<td>This means that there was a (shortfall)/surplus of</td>
<td>(£41.4)</td>
<td>£5.6</td>
</tr>
</tbody>
</table>
The actual performance of the Funds in 2014 is illustrated in the charts below.

**Isle of Man Bank Pension Fund**

- **1 Year (pa):** 17.3%
- **3 Year (pa):** 19.4%
- **5 Year (pa):** 13.1%
- **Total Fund:** 50.2%

**Asset returns vs benchmark**

<table>
<thead>
<tr>
<th>Year</th>
<th>Scheme Performance</th>
<th>Benchmark Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year (pa)</td>
<td>17.0</td>
<td>16.9</td>
</tr>
<tr>
<td>3 Year (pa)</td>
<td>9.9</td>
<td>9.8</td>
</tr>
<tr>
<td>5 Year (pa)</td>
<td>6.6</td>
<td>10.5</td>
</tr>
</tbody>
</table>

**1 year returns by asset class (%)**

- **UK Equities:** 12.2%
- **Overseas Equities:** 26.1%
- **Fixed Gilts:** 19.9%
- **Corporate Bonds:** 17.0%
- **Total Fund:** 27.2%

**Isle of Man Bank Widows’ & Orphans’ Fund**

- **1 Year (pa):** 27.2%
- **3 Year (pa):** 13.7%
- **5 Year (pa):** 9.9%
- **Total Fund:** 21.2%

**Asset returns vs benchmark**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fund Performance</th>
<th>Benchmark Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year (pa)</td>
<td>17.9</td>
<td>17.7</td>
</tr>
<tr>
<td>3 Year (pa)</td>
<td>9.3</td>
<td>9.3</td>
</tr>
<tr>
<td>5 Year (pa)</td>
<td>10.6</td>
<td>10.5</td>
</tr>
</tbody>
</table>

**1 year returns by asset class (%)**

- **UK Equities:** 13.7%
- **Overseas Equities:** 9.9%
- **Fixed Gilts:** 28.0%
- **Corporate Bonds:** 21.4%
- **Index-Linked Gilts:** 17.8%
- **Total Fund:** 26.1%

**Source:** Legal & General, Thomson Reuters

Fund performance, unless otherwise stated, is reported gross of fees.

The Funds’ overseas equities are invested via separate regional pooled funds. ‘Overseas Equities’ returns shown above are indicative and are based on the FTSE World (ex UK) Index.

This represents returns for sterling investors on an unhedged basis. Please note that approximately 50% of the Funds’ overseas equity exposure is currency hedged in practice and the impact of this is incorporated in the Total Fund return.
Financial facts - Pension Fund

The value of the Pension Fund’s net assets increased by £14.0m between 31 December 2013 and 31 December 2014. The Pension Fund received contributions of £3.6m from the Bank and paid £2.9m in benefits during the year.

- Income:
  - Contributions £3.6m
  - Other income nil

- Outgo:
  - Investment return £13.3m
  - Benefit payments £2.5m
  - Transfers out/other payments £0.4m

Total: £3.6m

Total: £2.9m

Financial facts - Widows’ & Orphans’ Fund

The value of the Widows’ & Orphans’ Fund’s net assets increased by £3.2m between 31 December 2013 and 31 December 2014. The Widows’ & Orphans’ Fund did not receive any contribution from the Bank and paid £252,000 in benefits during the year.

- Income:
  - Contributions £nil

- Outgo:
  - Investment return £3.5m
  - Benefit payments £0.2m
  - Transfers out/other payments £0.1m

Total: £0m

Total: £0.3m
> **Membership movements**

There were 694 members of the Pension Fund at 31 December 2014 split into the following categories:

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2013</th>
<th>Joiners</th>
<th>Leavers</th>
<th>At 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active members</td>
<td>101</td>
<td>-</td>
<td>(8)</td>
<td>93</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>171</td>
<td>14</td>
<td>(1)</td>
<td>184</td>
</tr>
<tr>
<td>Deferred pensioners</td>
<td>425</td>
<td>4</td>
<td>(12)</td>
<td>417</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>697</td>
<td>18</td>
<td>(21)</td>
<td>694</td>
</tr>
</tbody>
</table>

There were 722 members of the Widows' & Orphans' Fund at 31 December 2014 split into the following categories:

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2013</th>
<th>Joiners</th>
<th>Leavers</th>
<th>At 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active members</td>
<td>101</td>
<td>-</td>
<td>(8)</td>
<td>93</td>
</tr>
<tr>
<td>Pensions in payment</td>
<td>27</td>
<td>1</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>171</td>
<td>14</td>
<td>(1)</td>
<td>184</td>
</tr>
<tr>
<td>Deferred pensioners</td>
<td>425</td>
<td>4</td>
<td>(12)</td>
<td>417</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>724</td>
<td>19</td>
<td>(21)</td>
<td>722</td>
</tr>
</tbody>
</table>

> **Your pensions team**

The Trustees are responsible for operating the Funds in line with their formal rules and pensions law. They have a duty to protect the interests of all members, including Active Members, Deferred Pensioners (leavers and opt outs) and Pensioners.

**Your current Trustees are:**

**Nominated by the Bank**
- Jim Noakes (Chairman)
- Boal & Co (Pensions) Limited represented by Directors Gary Boal and Mark Kiernan (Independent)
- John Hunter
- Paul Smith

**Representative of pensioners in receipt of pensions from the Fund**
- Peter Cory

**Representative of the Union**
- Bev Grimshaw

Chris Mitchell retired as a Trustee on 15 December 2014 and his place was taken by John Hunter.
Find out more

The following documents are available on request from Pension Services:

> Latest Actuarial Valuation Report
Contains details of the Funds' financial position as at 31 December 2012.

> Latest Annual Report and Accounts
Shows the Funds’ income and expenditure in the 12 months to 31 December 2013.

Contact us

If you have a question, please contact Pension Services:

**Employee members**
Please contact via HR help on any of the HR pages of Insite.

**Deferred & pensioner members**
RBSpensionplans@rbs.co.uk

Alternative formats
This communication is available in large print, braille or audio on request from Pension Services.

Data protection
We hold information about you in order to provide your pension benefits (such as pension, lump sum and death benefits), which may include information obtained from third parties.

This information may be shared with:
- Companies within The Royal Bank of Scotland Group (please contact us if you do not want us to share your information with these companies)
- Other third parties who assist us in administering your benefits (e.g. updating personal data, calculating and paying benefits)
- Those where we have your permission to do so; and
- Those where we are required to do so by law

If you want a copy of the information we hold about you, please contact us. A fee may be payable.

Expression of Wish
The Trustees would like to remind all members to provide Pension Services with an up to date Expression of Wish form, nominating who you would like to receive benefits in the event of your death (albeit, please note that the Expression of Wish is not binding on the Trustees).

Please also provide Pension Services with an email address if you would like to be sent a copy of the full Trustees’ Annual Report and Accounts in future.

Pension Scams
The Trustees would like to bring the following to your attention. Previously known as Pension Liberation Fraud, Pension Scams have been a problem in the pensions industry recently. A Pension Scam is a transfer of a scheme member’s pension savings to an arrangement that will allow access to funds earlier than would normally be permissible. Converting a pension into cash might sound very attractive. However, Pension Scams can result in significant tax charges and penalties; those being targeted are usually not being told about these potential implications. Furthermore, these arrangements are more at risk of fraud. I would urge all members to be vigilant as an increasing number of companies are targeting savers by mass text or cold calls with offers which appear too good to be true.

Pension Services
HR People Services
The Royal Bank of Scotland Group
City Link House
4 Addiscombe Road
Croydon CR9 1YB